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ABSTRACT

This report presents an overview of the revised preschool funding formula under the 1997 amendments of the Individuals with Disabilities Education Act and perceptions of some state education agencies (SEA) staff on the initial impact of the funding changes. New features include a hold harmless base amount that is equal to the preschool grant received for fiscal year 1997. For new funds above 1997 allocations, a census factor and a poverty factor must be applied in establishing allocations. Information gathered from contacted SEA staff indicates reactions to the new components of the formula were mostly negative. Typical reactions included: (1) larger, wealthier local education agencies (LEAs) with the most resources often receive larger allocations; (2) increase in numbers of children served is no longer the basis of the formula, so the incentive to increase the number of identified preschoolers is removed; (3) the poverty factor has had a limited effect in shifting funds to urban areas; and (4) the allocation based on degree of poverty could result in an increase for poorer districts, but is too small a part of the total funds to be meaningful. The report concludes with a listing of related issues and recommendations for state action. (CR)

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ED 431 258

NATIONAL ASSOCIATION OF STATE DIRECTORS OF SPECIAL EDUCATION, INC.

QUICK TURN AROUND

PROJECT FORUM

QTA: A BRIEF ANALYSIS OF A CRITICAL ISSUE IN SPECIAL EDUCATION

ISSUE: IMPACT OF THE NEW 619 FUNDING FORMULA

MAY 1999

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EC 307237

Quick Turn Around

Project FORUM

QTA - a brief analysis of a critical issue in special education

Issue: Impact of the New 619 Funding Formula **Date: May 1999**

Purpose

The passage of the 1997 amendments to the Individuals With Disabilities Education Act (IDEA) resulted in a radical change in funding formulas affecting the distribution of federal dollars from federal to state and state to local levels for Part B in both §611 (for ages 3 through 21) and §619 (for ages 3 through 5). The formula change for §611, the larger Part B funding program, will not take effect until the total appropriation exceeds $4.9 billion, but the change became effective for preschool programs under § 619 in fiscal year 1998. The resulting funding shifts have had varying results for state education agencies (SEAs) and local education agencies (LEAs). This experience provides an opportunity to examine the effects of implementing the formula on a limited basis that could assist states in preparing for implementation of the formula for the entire Part B allocation.

This QTA presents an overview of the revised preschool funding formula, and perceptions of some SEA 619 staff on the initial impact of the funding changes. It concludes with a listing of related issues and recommendations for state action.

Background

One of the findings in the IDEA 1997 Amendments is that an effective special education system must have "placement-neutral funding formulas and cost-effective strategies for meeting the needs of children with disabilities" [P.L. 105-17 §1451(a)(6)(I)]. The 1997 Amendments also included changes to the preschool formula and distribution of funds. The prior formula had awarded each state its proportional share of the total allocation based on the total number of preschoolers with disabilities served in the state, and entitled each local district to an allocation on the same basis. [P.L. 102-119 §1419]. The new formula does not use the number of children served as a factor.

The §619 legislative language in the 1997 Amendments to IDEA establishing the new formula is very complicated. {Subsection (c) through (g) is quoted in full in the last two pages of this document.} The new features include a hold harmless base amount that is equal to the preschool grant received for fiscal year 1997. The base award for LEAs is figured assuming that the state had distributed 75% of its total preschool award for 1997 to its LEAs. For new funds above 1997 allocations (or the prior fiscal year for §611 when that formula becomes effective), a census factor (the total 3 through 5 year old population for §619 for state grants, and the total K-12 population for all local grants) and a poverty factor must be applied in establishing allocations.

Initial Implementation

Federal funding for the 619 program encompasses: federal to state (SEA) grants, and state to local (LEA) grants, each with its own requirements. The federal allocation to states in FY 1998 based on §619(c) awarded to each state: 1) the amount the state received in FY 1997; 2) funds for the state's relative 3 through 5 year old population; and, 3) funds for the relative 3 through 5 year old population living in poverty. From their total FY 1998 award, states may set aside an amount determined by the Department of Education in accordance with §619(d), of which the state may use no more than 20% for administration. Then, state allocations to LEAs must first have a base award[1] equal to the amount each eligible LEA would have received had the state distributed 75% of its FY 1997 award. Of the remaining funds to be awarded to LEAs, each LEA gets its share based on the school-age enrollment figure from all public and private schools in the LEA's jurisdiction, and each LEA also gets its share of funds based on the relative number of school-aged children

[1] The final Regulations for Preschool Grants provide for adjustments in base payments when a new LEA is created, such as a charter school, or LEAs are combined [34 CFR §301.31].

living in poverty. States have the option of flowing through to LEAs some or all of the state set aside amounts as well.

The National Early Childhood Technical Assistance System (NECTAS) is currently conducting a survey to collect information about the effects of the change, and complete data will be included as part of its annual profile of preschool programs. Early survey returns show that some states are experiencing significant shifts in LEA funding awards, while others experienced little change in award distribution for fiscal 1998 funds.

FORUM staff contacted SEA staff in a group of states to discuss their perceptions of the effects of this initial implementation of the new formula. A summary of these discussions follows:

Limited shift in allocations: States that did not see large changes in allocations to LEAs reported that the manner in which 619 funds were previously distributed is the reason the new formula did not have an impact on funding levels in 1998. One state reported it has been using part of its set-aside to maintain LEAs at a hold harmless amount despite level funding of 619 in the last few years. Another state has always passed all of its 619 funds through to LEAs and, even though amounts were recalculated for new formula, no significant fluctuations in LEA total grants resulted for this year. However, these SEA staff note that changes are likely to be more significant in future years.

Significant shift in allocations: Serious concerns were expressed by SEA staff in states where LEA allocations changed significantly as a result of the new formula. Many states used either carryover funds or the state set-aside to make up the difference where the new formula resulted in a decrease for an LEA. For example, New Jersey used all its carryover funds to avoid significant decreases for LEAs, but carryover funds will no longer be available to do that in future years. In some states, the wealthiest districts will get increases while the poorest see less funding. And, even though it is possible for §611 funds to be used for preschool, the reality is that there are not enough funds to meet the growing needs at the K-12 levels, the primary focus for those funds.

Issues

SEA staff shared some observations about their initial experience with the new formula. Every state had to adapt its internal procedures to accommodate the new formula. Additional administrative coordination was mentioned frequently as a crucial component of this process. The SEA staff had to obtain public and private school enrollment figures and, although this was not a new data collection for the state, the data were usually maintained in different parts of the agency and gathered at different times of the year. SEAs also had to revise their computer programs to perform the new calculations. This process involved many decisions along the way, such as which indicator to use for the poverty factor.

Reactions to the new components of the formula were mostly negative. Typical reactions to the population factor were:

- although the formula was intended to be an equalizer in terms of providing more for LEAs that were poor and served more preschoolers, it often had the opposite effect. Larger, wealthier LEAs with the most resources often receive larger allocations than smaller districts that have fewer resources of their own.
- increases in children served is no longer the basis of the formula, so the incentive to increase the number of identified preschoolers is removed. This change also eliminates the changes in state grants that resulted from revisions to preschool child count data.

Concerning the poverty factor, SEA staff commented:

- although there is a potential for a shift in funds to urban areas, the effect is minimal because the factor impacts on such a small percentage of the overall amount.
- the allocation based on degree of poverty could result in an increase for poorer distracts, but it is too small a part of the total funds to be meaningful.

Conclusions

Implementation of the new funding formula in preschool programs may serve as a guide to future changes in §611 portion of IDEA funding. It is essential that states capitalize on the experience gained in this initial implementation in the smaller §619 program, and plan carefully for the changes that will be needed when the appropriations for §611 trigger the use of the formula for the larger Part B program. At a minimum, decisions must be made about the indicator to be used for the poverty factor, and how and when the data will be processed. Since each state has its own unique combination of structure and funding procedures, it is essential that each SEA do a comprehensive analysis to examine the changes that will ensue to prepare SEA and LEA staff and preschool programs for the effects.

SEC. 619. PRESCHOOL GRANTS.

(c) ALLOCATIONS TO STATES-

(1) IN GENERAL- After reserving funds for studies and evaluations under section 674(e), the Secretary shall allocate the remaining amount among the States in accordance with paragraph (2) or (3), as the case may be.

(2) INCREASE IN FUNDS- If the amount available for allocations to States under paragraph (1) is equal to or greater than the amount allocated to the States under this section for the preceding fiscal year, those allocations shall be calculated as follows:

(A) (i) Except as provided in subparagraph (B), the Secretary shall --

(I) allocate to each State the amount it received for fiscal year 1997;

(II) allocate 85 percent of any remaining funds to States on the basis of their relative populations of children aged 3 through 5; and

(III) allocate 15 percent of those remaining funds to States on the basis of their relative populations of all children aged 3 through 5 who are living in poverty.

(ii) For the purpose of making grants under this paragraph, the Secretary shall use the most recent population data, including data on children living in poverty, that are available and satisfactory to the Secretary.

(B) Notwithstanding subparagraph (A), allocations under this paragraph shall be subject to the following:

(i) No State's allocation shall be less than its allocation for the preceding fiscal year.

(ii) No State's allocation shall be less than the greatest of --

(I) the sum of --

(aa) the amount it received for fiscal year 1997; and

(bb) one third of one percent of the amount by which the amount appropriated under subsection (j) exceeds the amount appropriated under this section for fiscal year 1997;

(II) the sum of --

(aa) the amount it received for the preceding fiscal year; and

(bb) that amount multiplied by the percentage by which the increase in the funds appropriated from the preceding fiscal year exceeds 1.5 percent; or

(III) the sum of --

(aa) the amount it received for the preceding fiscal year; and

(bb) that amount multiplied by 90 percent of the percentage increase in the amount appropriated from the preceding fiscal year.

(iii) Notwithstanding clause (ii), no State's allocation under this paragraph shall exceed the sum of --

(I) the amount it received for the preceding fiscal year; and

(II) that amount multiplied by the sum of 1.5 percent and the percentage increase in the amount appropriated.

(C) If the amount available for allocations under this paragraph is insufficient to pay those allocations in full, those allocations shall be ratably reduced, subject to subparagraph (B)(i).

(3) DECREASE IN FUNDS- If the amount available for allocations to States under paragraph (1) is less than the amount allocated to the States under this section for the preceding fiscal year, those allocations shall be calculated as follows:

(A) If the amount available for allocations is greater than the amount allocated to the States for fiscal year 1997, each State shall be allocated the sum of --

(i) the amount it received for fiscal year 1997; and

(ii) an amount that bears the same relation to any remaining funds as the increase the State received for the preceding fiscal year over fiscal year 1997 bears to the total of all such increases for all States.

(B) If the amount available for allocations is equal to or less than the amount allocated to the States for fiscal year 1997, each State shall be allocated the amount it received for that year, ratably reduced, if necessary.

(4) OUTLYING AREAS- The Secretary shall increase the fiscal year 1998 allotment of each outlying area under section 611 by at least the amount that area received under this section for fiscal year 1997.

(d) RESERVATION FOR STATE ACTIVITIES-

(1) IN GENERAL- Each State may retain not more than the amount described in paragraph (2) for administration and other State-level activities in accordance with subsections (e) and (f).

(2) AMOUNT DESCRIBED- For each fiscal year, the Secretary shall determine and report to the State educational agency an amount that is 25 percent of the amount the State received under this section for fiscal year 1997, cumulatively adjusted by the

Secretary for each succeeding fiscal year by the lesser of --

(A) the percentage increase, if any, from the preceding fiscal year in the State's allocation under this section; or

(B) the percentage increase, if any, from the preceding fiscal year in the Consumer Price Index For All Urban Consumers published by the Bureau of Labor Statistics of the Department of Labor.

(e) STATE ADMINISTRATION-

(1) IN GENERAL- For the purpose of administering this section (including the coordination of activities under this part with, and providing technical assistance to, other programs that provide services to children with disabilities) a State may use not more than 20 percent of the maximum amount it may retain under subsection (d) for any fiscal year.

(2) ADMINISTRATION OF PART C- Funds described in paragraph (1) may also be used for the administration of part C of this Act, if the State educational agency is the lead agency for the State under that part.

(f) OTHER STATE-LEVEL ACTIVITIES- Each State shall use any funds it retains under subsection (d) and does not use for administration under subsection (e) --

(1) for support services (including establishing and implementing the mediation process required by section 615(e)), which may benefit children with disabilities younger than 3 or older than 5 as long as those services also benefit children with disabilities aged 3 through 5;

(2) for direct services for children eligible for services under this section;

(3) to develop a State improvement plan under subpart 1 of part D;

(4) for activities at the State and local levels to meet the performance goals established by the State under section 612(a)(16) and to support implementation of the State improvement plan under subpart 1 of part D if the State receives funds under that subpart; or

(5) to supplement other funds used to develop and implement a Statewide coordinated services system designed to improve results for children and families, including children with disabilities and their families, but not to exceed one percent of the amount received by the State under this section for a fiscal year.

(g) SUBGRANTS TO LOCAL EDUCATIONAL AGENCIES-

(1) SUBGRANTS REQUIRED- Each State that receives a grant under this section for any fiscal year shall distribute any of the grant funds that it does not reserve under subsection (d) to local educational agencies in the State that have established their eligibility under section 613, as follows:

(A) BASE PAYMENTS- The State shall first award each agency described in paragraph (1) the amount that agency would have received under this section for fiscal year 1997 if the State had distributed 75 percent of its grant for that year under section 619(c)(3), as then in effect.

(B) ALLOCATION OF REMAINING FUNDS- After making allocations under subparagraph (A), the State shall --

(i) allocate 85 percent of any remaining funds to those agencies on the basis of the relative numbers of children enrolled in public and private elementary and secondary schools within the agency's jurisdiction; and

(ii) allocate 15 percent of those remaining funds to those agencies in accordance with their relative numbers of children living in poverty, as determined by the State educational agency.

(2) REALLOCATION OF FUNDS- If a State educational agency determines that a local educational agency is adequately providing a free appropriate public education to all children with disabilities aged 3 through 5 residing in the area served by that agency with State and local funds, the State educational agency may reallocate any portion of the funds under this section that are not needed by that local agency to provide a free appropriate public education to other local educational agencies in the State that are not adequately providing special education and related services to all children with disabilities aged 3 through 5 residing in the areas they serve.

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